

FDIC State Profile

Winter 2004

Alaska

Alaska employment showed positive trends in urban areas.

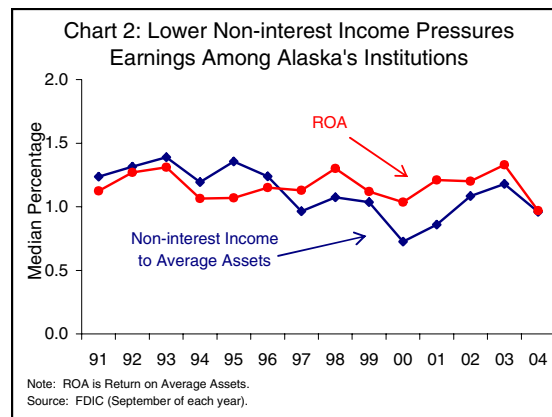
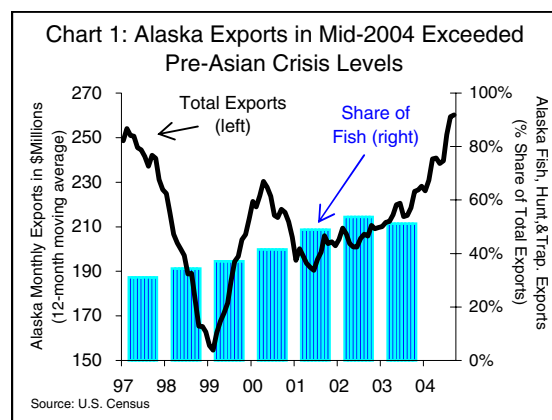
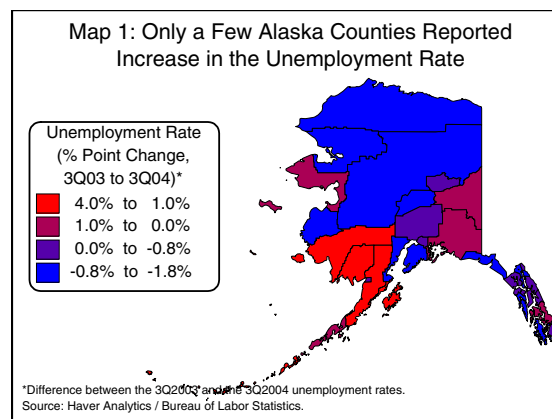
- Nonfarm jobs in the state grew 1.3 percent year-over-year for third quarter 2004, ranking as the 19th strongest growth rate in the nation. Employment growth within the **Anchorage** metropolitan area was slightly stronger at 1.6 percent. The expectation of continued national economic growth, combined with higher crude oil prices, should bode well for Alaskan job growth prospects.
- The unemployment rate declined in most Alaska counties during the third quarter (See Map 1). Unemployment was down for all counties with more than 20,000 inhabitants during the year ending third quarter 2004, an indication of an improving job market within the state's metro areas. However, at 7.5 percent, Alaska continued to report the highest unemployment rate in the nation, in part because of difficulties in the salmon industry that have adversely affected employment in some of the less-populated port areas.

Foreign demand for fish products boosted Alaska's exports, but low prices strain the industry.

- Alaska exports have been on the rise since 2003. As of September 2004, exports surpassed pre-Asian crisis levels in large part because of demand for fish products (See Chart 1). During 2002 and 2003, Alaska fish products contributed to more than half the state's exports.
- Unfortunately, low salmon prices offset some of the benefits from increased export demand. Foreign production of farm-raised salmon has put downward price pressure on some species of salmon, directly contributing to the closure of nine Wards Cove processing plants and the North Pacific Seafoods in Cordova in 2003.¹

Earnings at Alaska's insured institutions come under pressure.

- The median quarterly return on average assets ratio for insured institutions headquartered in Alaska fell to 0.97 percent as of September 30, 2004, down from 1.33 percent



¹Welch, Laine, "Low Salmon Prices, Plant Closures Marked 2003," Anchorage Daily News, January 3, 2004.

a year ago and below the 1.05 reported for all insured institutions nationwide. Low loan loss provisions and cuts in overhead expenses did not offset declines in noninterest income and narrowing net interest margins.

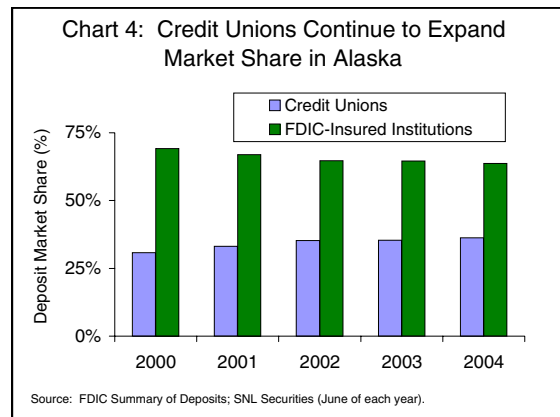
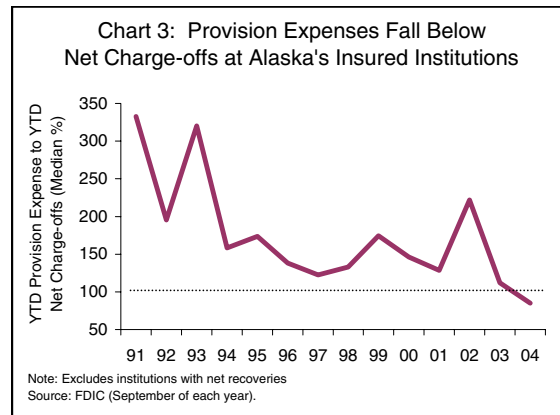
- Declining noninterest income was the most significant contributor to lower levels of profitability. The median noninterest income to average assets ratio fell from 1.18 percent to 0.96 percent year-over-year as of third quarter 2004 (See Chart 2). Year-over-year, noninterest income declined because of lower gains on the sale of loans and related fees which is attributed to interest rate shifts during the previous year.
- Although earnings were aided by lower loan loss provisions, loan charge-offs, primarily centered in the commercial and industrial and consumer portfolios, exceeded provisions on a year-to-date basis in 2004. As a consequence, the median ratio of the allowance for loan losses to total loans fell from 1.40 percent to 1.10 percent as of September 30, 2004, and now compares unfavorably to the national median of 1.23 percent. Going forward, earnings may be negatively affected by higher loan and lease loss provision expenses if loan charge-offs continue to deplete the allowance for loan losses (See Chart 3).
- In third quarter 2004, 33 percent of institutions increased profits through securities gains, compared to 86 percent one year ago. Going forward, increases in long-term interest rates could pressure portfolio values and make it more difficult for insured institutions in Alaska to realize securities gains as income.

Strong construction and development (C&D) lending growth may be understating commercial real estate (CRE) delinquencies.

- Although the median CRE delinquency ratio declined year-over-year as of September 30, 2004, from 1.41 to 1.08 percent, it was the sixth highest in the nation. C&D loan growth outpaced growth in other areas of lending, and Alaska's insured institutions reported the 14th highest C&D loan to Tier 1 capital ratio (52 percent) in the nation as of September 30, 2004. C&D loan growth corresponds to strong residential construction permit activity, in part because of a surge in demand for two-family building permits. Developers reported a dwindling supply of land available for development in Anchorage, pushing new development to neighboring Matanuska-Susitna County. Going forward, portfolio seasoning or rising interest rates could translate into higher past-due CRE loan levels.

Credit unions expand their market share while the number of financial institution offices declines.

- Alaska reported the nation's largest credit union market share as of June 30, 2004, at 35.7 percent of combined credit union and FDIC-insured deposits, increasing from 30.8 percent in 2000 (See Chart 4). The Anchorage MSA, the state's only metropolitan area, reported the 10th highest credit union market share among the nation's metropolitan areas, at 50.2 percent of combined credit union and FDIC-insured deposits. However, the state ranked last in the nation in terms of office growth during the past five years; nearly 6 percent of Alaska's FDIC-insured offices have closed since 1999. The five insured institutions with the greatest market share in the state closed offices, with most of the office closings occurring in the Anchorage area. Three of the four in-state institutions that closed offices have also experienced a reduction in overhead to average asset ratios during the past five years.



State Profile

Alaska at a Glance

| General Information | Sep-04 | Sep-03 | Sep-02 | Sep-01 | Sep-00 |
|--|-----------|------------|-----------|-----------|-----------|
| Institutions (#) | 7 | 8 | 8 | 8 | 8 |
| Total Assets (in thousands) | 3,979,823 | 7,544,834 | 7,115,141 | 6,633,480 | 6,279,169 |
| New Institutions (# < 3 years) | 0 | 0 | 0 | 0 | 0 |
| New Institutions (# < 9 years) | 0 | 0 | 0 | 0 | 0 |
| Capital | Sep-04 | Sep-03 | Sep-02 | Sep-01 | Sep-00 |
| Tier 1 Leverage (median) | 8.61 | 8.86 | 8.89 | 8.81 | 9.25 |
| Asset Quality | Sep-04 | Sep-03 | Sep-02 | Sep-01 | Sep-00 |
| Past-Due and Nonaccrual (median %) | 1.38% | 1.38% | 1.62% | 1.52% | 1.60% |
| Past-Due and Nonaccrual >= 5% | 0 | 0 | 0 | 1 | 0 |
| ALLL/Total Loans (median %) | 1.10% | 1.40% | 1.29% | 1.29% | 1.36% |
| ALLL/Noncurrent Loans (median multiple) | 1.85 | 3.52 | 2.17 | 2.36 | 1.90 |
| Net Loan Losses/Loans (aggregate) | 0.11% | 0.31% | 0.26% | 0.26% | 0.02% |
| Earnings (Year-to-Date Annualized) | Sep-04 | Sep-03 | Sep-02 | Sep-01 | Sep-00 |
| Unprofitable Institutions (#) | 0 | 0 | 0 | 0 | 0 |
| Percent Unprofitable | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Return on Assets (median %) | 0.97 | 1.33 | 1.20 | 1.21 | 1.04 |
| 25th Percentile | 0.88 | 0.74 | 0.87 | 0.69 | 1.03 |
| Net Interest Margin (median %) | 4.78% | 4.86% | 5.01% | 4.79% | 4.69% |
| Yield on Earning Assets (median) | 5.33% | 5.85% | 6.52% | 7.91% | 8.24% |
| Cost of Funding Earning Assets (median) | 0.67% | 0.88% | 1.51% | 2.93% | 3.26% |
| Provisions to Avg. Assets (median) | 0.08% | 0.09% | 0.17% | 0.12% | 0.05% |
| Noninterest Income to Avg. Assets (median) | 0.96% | 1.18% | 1.08% | 0.86% | 0.73% |
| Overhead to Avg. Assets (median) | 3.71% | 3.79% | 3.72% | 3.87% | 4.01% |
| Liquidity/Sensitivity | Sep-04 | Sep-03 | Sep-02 | Sep-01 | Sep-00 |
| Loans to Deposits (median %) | 74.53% | 61.81% | 59.13% | 62.22% | 69.31% |
| Loans to Assets (median %) | 48.82% | 48.44% | 48.75% | 48.66% | 51.32% |
| Brokered Deposits (# of Institutions) | 2 | 2 | 1 | 1 | 2 |
| Bro. Deps./Assets (median for above inst.) | 1.63% | 1.71% | 1.06% | 1.15% | 0.78% |
| Noncore Funding to Assets (median) | 13.49% | 17.62% | 19.45% | 21.21% | 19.97% |
| Core Funding to Assets (median) | 74.84% | 72.84% | 70.20% | 63.34% | 68.00% |
| Bank Class | Sep-04 | Sep-03 | Sep-02 | Sep-01 | Sep-00 |
| State Nonmember | 3 | 3 | 3 | 3 | 3 |
| National | 2 | 3 | 3 | 3 | 3 |
| State Member | 0 | 0 | 0 | 0 | 0 |
| S&L | 0 | 0 | 0 | 0 | 0 |
| Savings Bank | 1 | 1 | 1 | 1 | 1 |
| Stock and Mutual SB | 1 | 1 | 1 | 1 | 1 |
| MSA Distribution | | # of Inst. | Assets | % Inst. | % Assets |
| No MSA | | 4 | 892,965 | 57.14% | 22.44% |
| Anchorage AK | | 3 | 3,086,858 | 42.86% | 77.56% |